

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

1. GROUP ORGANISATION AND OPERATIONS

The Company was formerly incorporated in the PRC on 10th February, 1995 under the name BYD Industries as a private limited company under the PRC Company Law. Through a group reorganisation as described more fully in the paragraphs headed “Corporate reorganisation” in Appendix VI of the prospectus of the Company issued on 22nd July, 2002 (the “Reorganisation”), BYD Industries was transformed into a joint stock limited company and changed to its present name, BYD Company Limited, on 11th June, 2002.

The Group is principally engaged in the research, development, manufacture and sale of rechargeable batteries for electronic devices, including mobile phones, cordless phones and power tools.

The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited since 31st July, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out as below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 11 (revised):	Foreign currency translation
SSAP 15 (revised):	Cash flow statements
SSAP 34 (revised):	Employee benefits

(b) Group accounting

(i) Consolidation

The Reorganisation is accounted for using merger accounting as permitted by SSAP 27 “Accounting for group reconstructions”. The consolidated accounts of the Group for the year ended 31st December, 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of 2001.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast the majority of votes at the meetings of the board of directors.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of a subsidiary.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Group accounting (cont'd)

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Intangibles

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the assets will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful lives as follows:

Industrial proprietary rights	10 years
Computer software	5 years
Patents	5 years

Intangible assets are not revalued as there is no active market for these assets.

Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down immediately to its recoverable amount.

(d) Research and development costs

Research and development costs are expensed as incurred.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performances, the expenditure is capitalised as an additional cost of the asset.

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Property, plant and equipment (cont'd)

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The estimated useful lives and estimated residual values are as follows:

	Estimated useful lives	Estimated residual values
Land use rights	Over the remaining period of the lease	—
Buildings	50 years	5%
Leasehold improvements	Over the remaining period of the lease	—
Machinery and equipment	5 years	5%
Motor vehicles	5 years	5%
Office equipment and fixtures	5 years	5%

The useful lives of property, plant and equipment and depreciation method are reviewed periodically.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs.

Construction-in-progress is not depreciated until such time when the assets are completed and ready for their intended use.

(g) Government grants

Government grants in the form of subsidy or financial refunds are recognised when there is reasonable assurance that the grant will be received and all attached conditions are complied with.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(i) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(l) Retirement benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Pension obligations

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a state-sponsored retirement plan for all its PRC employees at 9% (for Shenzhen residents) or 8% (for non-Shenzhen residents) of the basic salary predetermined by Shenzhen local government. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the annual contributions.

The Group provides no retirement nor termination benefits other than those described above.

The costs of employee retirement benefits are recognised in the profit and loss account in the year in which they are incurred.

(m) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purpose and profit as stated in the accounts, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

NOTES TO THE ACCOUNTS

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) Value-added tax ("VAT")

The Company and its subsidiaries registered in the PRC are subject to VAT, which is charged on top of the selling price at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchases of semi-finished products or raw materials can be used to offset the output VAT on sales to determine the net VAT payable.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(p) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Processing income is recognised as processing services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

(q) Borrowing cost

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments by location of assets be presented as the primary and only reporting format as the Group has only one business segment.

No segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

3. TURNOVER AND OTHER REVENUE

Revenue recognised during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Turnover		
— Li-ion batteries	1,173,983	562,261
— Nickel batteries	1,109,290	727,211
— Emergency lights	7,625	15,830
Total turnover	2,290,898	1,305,302
Sales of scrap materials	12,867	5,533
Processing income	1,503	165
Subsidy income	11,020	6,860
Interest income	2,602	565
Total other revenue	27,992	13,123
Total revenue	2,318,890	1,318,425

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(Amounts expressed in RMB unless otherwise stated)

4. OPERATING PROFIT

Operating profit was stated after charging and crediting the followings:

	2002	2001
	RMB'000	RMB'000
After charging —		
Cost of inventories	1,113,284	704,695
Staff costs (exclude directors' emoluments)		
— Wages and salaries	216,564	132,556
— Pension cost - defined contribution	1,093	586
— Post employment medical benefits	291	242
Provision for employees' welfare	29,215	19,085
Directors' (including supervisors) emoluments (Note 9(a))	3,336	1,005
Depreciation of property, plant and equipment	58,501	35,081
Amortisation of intangible assets	1,495	1,200
Provision for doubtful receivables	10,622	7,868
(Reversal of provision for)/ provision for inventories obsolescence	(1,559)	12,963
Operating lease expenses on land and buildings	3,284	9,905
Loss on disposal of property, plant and equipment	4,834	2,510
Exchange losses, net	—	1,132
Auditors' remuneration	1,457	1,074
Research and development costs	30,388	32,522
After crediting —		
Exchange gains, net	186	—
Interest income on bank deposits	2,602	565

5. FINANCE COSTS

	2002	2001
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	16,155	22,163
Other incidental borrowing costs	1,942	2,637
	18,097	24,800

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

6. TAXATION

(a) Income tax

(i) *Hong Kong, United States of America ("U.S.A.") and Netherlands profits tax*

No Hong Kong, U.S.A. and Netherlands profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong, U.S.A. and Netherlands during the year ended 31st December, 2002 (2001: Nil).

(ii) *PRC Enterprise Income Tax ("EIT")*

The Company and its subsidiaries registered in the PRC are subject to EIT on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The applicable EIT rates are as follows:

Entity registered in the PRC	Applicable EIT rate
The Company	33%
Shenzhen BYD Lithium Battery Company Limited ("BYD Li-ion")	33%
Shenzhen BYD Electronics Company Limited ("BYD Electronics")	33%
Shanghai BYD Company Limited ("BYD SH")	N/A (Note 1)

Note 1 BYD SH is a company newly established in 2002. As at the date of this report, BYD SH is still in its pre-operating stage and the applicable EIT rate has not yet been determined by the relevant PRC local tax bureau.

In accordance with a circular issued by Shenzhen local government, being qualified as "High-technology Enterprises" registered in Shenzhen, the Company, BYD Li-ion and BYD Electronics are entitled to a preferential EIT rate of 15%. The Company and BYD Li-ion are further entitled to full exemption from EIT for the first two years and 50% reduction in EIT for the next eight years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. 1997 and 1999 were the first profitable years for the Company and BYD Li-ion, respectively.

In accordance with a circular issued by Shenzhen local government, BYD Electronics is entitled to full exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years. 2001 was the first profitable year for BYD Electronics.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002	2001
	RMB'000	RMB'000
Current taxation:		
- Hong Kong profits tax	—	—
- Overseas taxation	59,445	20,289
Deferred taxation	—	—
	59,445	20,289

(b) Deferred taxation

There was no significant unprovided deferred taxation as at 31st December, 2002 (2001: Nil).

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(Amounts expressed in RMB unless otherwise stated)

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB309,687,000 (2001: RMB106,161,000).

8. EARNINGS PER SHARE

(a) Earnings per share - basic

Basic earnings per share is only calculated from the date when the Company became a joint stock limited company. As the Company has only become a joint stock limited company and issued share capital on 11th June, 2002, no earnings per share is presented for the year ended 31st December, 2001 and the earnings per share for the year ended 31st December, 2002 represented only earnings per share for the period from 11th June, 2002 to 31st December, 2002.

The calculation of basic earnings per share for the period from 11th June, 2002 to 31st December, 2002 is based on the Group's profit attributable to shareholders for the period of approximately RMB463,668,000 and the weighted average number of approximately 496,786,000 shares in issue during the period from 11th June, 2002 to 31st December, 2002.

(b) Earnings per share - full year

The calculation of full year earnings per share for the year ended 31st December, 2002 is based on the Group's profit attributable to shareholders for the year ended 31st December, 2002 of approximately RMB658,303,000 and the weighted average number of approximately 451,479,000 shares in issue during the year.

(c) Earnings per share - diluted

Diluted earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' (including supervisors') emoluments

The aggregate amount of emoluments payable to directors (including supervisors) of the Group during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Fees	—	—
Other emoluments		
- basic salaries, allowances and benefits in kind	3,316	988
- pension	20	17
	3,336	1,005

Directors' (including supervisors') emoluments disclosed above include approximately RMB186,900 (2001: Nil) paid to independent non-executive directors.

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(Amounts expressed in RMB unless otherwise stated)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (cont'd)

(a) Directors' (including supervisors') emoluments (cont'd)

The emoluments of the directors (including supervisors) fell within the following bands:

	Number of directors (including supervisors)	
	2002	2001
Nil to Hong Kong dollar ("HKD") 1,000,000 (equivalent to approximately RMB1,060,000)	16	9

The executive directors received individual emoluments for the year ended 31st December, 2002 of approximately RMB402,800 (2001: RMB402,800) and RMB434,600 (2001: RMB117,200), respectively.

None of the directors (including supervisors) waived any emoluments during the year ended 31st December, 2002. No payment as an inducement for joining the Company or compensation for the loss of office as a director of any member of the Group or any other office in connection with the management of the affairs of any member of the Group was paid or payable to any director (including supervisor) for the year ended 31st December, 2002.

(b) Five highest paid individuals

During the year ended 31st December, 2002, the five highest paid individuals included 4 directors (including supervisors) (2001: 2 directors (including supervisors)), details of whose emoluments are set out above. The emoluments of the remaining highest paid individuals were as follows:

	2002		2001	
	RMB'000		RMB'000	
Basic salaries, allowances and benefits in kind	1,500	2,280		
Pension	—	5		
	1,500	2,285		

The emoluments fell within the following band:

	Number of individuals	
	2002	2001
Nil to HKD1,000,000 (equivalent to approximately RMB1,060,000)	—	2
HKD1,000,001 (equivalent to approximately RMB1,060,000) to HKD1,500,000 (equivalent to approximately RMB1,590,000)	1	1
	1	3

No payment as an inducement for joining the Company or compensation for the loss of any office in connection with the management of the affairs of any member of the Group was paid or payable to any five highest paid individuals mentioned above for the year ended 31st December, 2002.

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10. INVESTMENT IN SUBSIDIARIES

	2002	2001
	RMB'000	RMB'000
Unlisted equity at cost	55,647	28,422

Details of the Company's subsidiaries are as follows:

Name	Place of establishment/ incorporation, operation and kind of legal entity	Percentage of equity interest attributable to the Group		Paid in/ issued and fully paid share capital	Principal activities
		Direct	Indirect		
BYD Li-ion	The PRC Limited liability company	90%	—	RMB30,000,000	Research, development, sale and manufacture of Li-ion batteries.
BYD Electronics	The PRC Limited liability company	40%	54%	RMB2,500,000	Design and manufacture of testing equipment and machinery for the Group's own use and rechargeable battery related products.
BYD SH	The PRC Limited liability company	100%	—	USD4,376,807	Research, development, sale and manufacture of Li-ion batteries.
BYD Europe B.V. ("BYD Europe")	Netherlands Limited liability company	100%	—	Netherlands Guilders 40,000	Trading of NiCd, NiMH and Li-ion batteries and related products.
BYD America Corporation ("BYD America")	U.S.A. Limited liability company	100%	—	USD300	Trading of NiCd, NiMH and Li-ion batteries and related products.
BYD (H.K.) Co., Limited ("BYD HK")	Hong Kong Limited liability company	—	100%	HKD100	Trading of NiCd, NiMH and Li-ion batteries and related products.

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11. PROPERTY, PLANT AND EQUIPMENT

Group

	Land use rights	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
As at 31st December, 2001	41,500	246,653	6,640	175,876	3,470	23,984	48,509	546,632
Additions	74,377	31,576	657	71,584	4,078	24,474	86,454	293,200
Reclassification	—	26,570	—	11,872	—	—	(38,442)	—
Disposals	(24,680)	(3,108)	—	(11,042)	(972)	(1,058)	—	(40,860)
As at 31st December, 2002	91,197	301,691	7,297	248,290	6,576	47,400	96,521	798,972
Accumulated depreciation								
As at 31st December, 2001	(350)	(1,557)	(1,369)	(45,804)	(1,205)	(6,846)	—	(57,131)
Additions	(703)	(6,630)	(1,256)	(40,091)	(1,621)	(8,200)	—	(58,501)
Disposals	—	1,150	—	10,009	682	850	—	12,691
As at 31st December, 2002	(1,053)	(7,037)	(2,625)	(75,886)	(2,144)	(14,196)	—	(102,941)
Net book value								
As at 31st December, 2002	90,144	294,654	4,672	172,404	4,432	33,204	96,521	696,031
As at 31st December, 2001	41,150	245,096	5,271	130,072	2,265	17,138	48,509	489,501

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Company

	Land use rights	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction- in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost								
As at 31st December, 2001	41,500	125,622	4,095	99,929	2,405	19,606	2,675	295,832
Additions	—	3,574	385	36,440	2,762	17,112	46,780	107,053
Reclassification	—	547	—	5,999	—	—	(6,546)	—
Disposals	(24,680)	(2,386)	—	(7,719)	(972)	(967)	—	(36,724)
As at 31st December, 2002	16,820	127,357	4,480	134,649	4,195	35,751	42,909	366,161
Accumulated depreciation								
As at 31st December, 2001	(350)	(1,556)	(493)	(33,118)	(1,003)	(5,823)	—	(42,343)
Additions	(331)	(3,250)	(791)	(22,090)	(2,061)	(7,134)	—	(35,657)
Disposals	—	714	—	8,240	607	652	—	10,213
As at 31st December, 2002	(681)	(4,092)	(1,284)	(46,968)	(2,457)	(12,305)	—	(67,787)
Net book value								
As at 31st December, 2002	16,139	123,265	3,196	87,681	1,738	23,446	42,909	298,374
As at 31st December, 2001	41,150	124,066	3,602	66,811	1,402	13,783	2,675	253,489

Land use rights comprise land use fees paid for the rights to use the land where the Group's factory buildings in Shenzhen and Shanghai, the PRC are located.

As at 31st December, 2002, the remaining periods of the land use rights where the Group's factory buildings in Shenzhen and Shanghai are located are 47.5 years and 49.8 years, respectively.

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12. INTANGIBLE ASSETS

Group

	Industrial proprietary rights	Computer software	Patents	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
As at 31st December, 2001	5,200	556	2,646	8,402
Additions	373	2,399	—	2,772
As at 31st December, 2002	5,573	2,955	2,646	11,174
Accumulated amortisation				
As at 31st December, 2001	(1,800)	(115)	(605)	(2,520)
Additions	(631)	(345)	(519)	(1,495)
As at 31st December, 2002	(2,431)	(460)	(1,124)	(4,015)
Net book value				
As at 31st December, 2002	3,142	2,495	1,522	7,159
As at 31st December, 2001	3,400	441	2,041	5,882

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12. INTANGIBLE ASSETS (cont'd)

Company

	Industrial proprietary rights	Computer software	Patents	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
As at 31st December, 2001	5,200	539	2,304	8,043
Additions	373	2,022	—	2,395
As at 31st December, 2002	5,573	2,561	2,304	10,438
Accumulated amortisation				
As at 31st December, 2001	(1,800)	(99)	(576)	(2,475)
Additions	(631)	(313)	(457)	(1,401)
As at 31st December, 2002	(2,431)	(412)	(1,033)	(3,876)
Net book value				
As at 31st December, 2002	3,142	2,149	1,271	6,562
As at 31st December, 2001	3,400	440	1,728	5,568

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13. INVENTORIES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Raw materials	168,879	108,256	71,318	37,581
Work-in-progress	269,278	152,668	143,625	75,678
Finished goods	40,421	20,149	13,809	8,796
	478,578	281,073	228,752	122,055
Less: Provision for inventories obsolescence	(39,519)	(41,078)	(32,410)	(31,805)
	439,059	239,995	196,342	90,250

14. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepayments for purchase of raw materials	3,039	14,944	3,039	—
Prepayments for purchase of property, plant and equipment	99,333	12,124	15,598	12,124
VAT recoverable	95,746	43,007	95,746	40,047
Amounts due from employees	1,318	6,863	969	4,389
Others	19,407	3,687	6,156	1,352
	218,843	80,625	121,508	57,912

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15. ACCOUNTS AND NOTES RECEIVABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
1 to 3 months	419,461	350,733	177,930	126,999
4 to 6 months	209,329	8,237	34,398	5,752
7 to 12 months	6,609	5,993	2,249	4,704
1 to 2 years	5,332	543	3,908	481
2 to 3 years	459	1,447	419	1,447
Above 3 years	—	15,854	—	15,854
	641,190	382,807	218,904	155,237
Less: Provision for doubtful receivables	(41,722)	(31,100)	(18,213)	(23,932)
	599,468	351,707	200,691	131,305

Credit policy

The Group adopted a prudent approach in granting credit to customers. No credit term was granted to PRC customers except for those with sound financial background and good repayment histories, for which the Group would grant credit terms of 90 days. For overseas customers, the Group would generally grant credit terms of 90 days. In addition, a predetermined maximum credit term has been set for each customer.

16. RESTRICTED BANK DEPOSITS

Restricted bank deposits in 2001 represented pledged deposits placed with a bank for security against the issuance of certain letters of credit by that bank on behalf of the Group (Note 27).

During 2002, the aforementioned letters of credit were renewed and security was no longer required, hence, all restricted bank deposits were released.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

17. CASH AND BANK DEPOSITS

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cash and bank deposits denominated in				
- RMB	168,535	42,420	85,902	23,295
- USD	112,100	41,928	50,644	20,405
- HKD	959,199	1,203	958,369	641
- Others	320	488	—	—
	1,240,154	86,039	1,094,915	44,341

RMB is not a freely convertible currency.

18. ACCOUNTS AND NOTES PAYABLES

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
1 to 3 months	344,955	231,111	170,850	143,773
4 to 6 months	56,590	47,336	43,598	16,468
7 to 12 months	1,891	1,007	1,208	943
1 to 2 years	496	990	496	990
2 to 3 years	287	209	287	209
	404,219	280,653	216,439	162,383

19. BANK BORROWINGS

During the year ended 31st December, 2002, all of the bank loans have been repaid with the Company's listing proceeds subsequent to the listing of the Company's H shares.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

20. SHARE/ PAID-IN CAPITAL

The details of share/ paid-in capital are as follows:

	Number of shares		Amount	
	2002 '000	2001 '000	2002 RMB'000	2001 RMB'000
Issued and fully paid	539,500	—	539,500	30,000

The movements in share/ paid-in capital during the year were as follows:

	Number of shares		Amount	
	2002 '000	2001 '000	2002 RMB'000	2001 RMB'000
Beginning of year	—	—	30,000	30,000
Capitalisation of retained earnings (Note a)	—	—	70,000	—
Capitalisation of reserves (Note b)	—	—	290,000	—
Creation of shares (Note b)	390,000	—	—	—
Issuance of H shares (Note c)	149,500	—	149,500	—
	539,500	—	539,500	30,000

- (a) On 10th January, 2002, retained earnings amounting to RMB70,000,000 were capitalised as paid-up capital. The increase in capital had been verified by Shenzhen Great Land Certified Public Accountants, certified public accountants registered in the PRC, and approved by Shenzhen Municipal Administration for Industry and Commerce ("SMAIC").
- (b) On 11th June, 2002, the registered capital of the Company was increased from RMB100,000,000 to RMB390,000,000 divided into 390,000,000 Domestic Shares of RMB1 each, all of which were issued and paid up, by way of capitalisation of reserves, upon the conversion of the Company from a limited liability company to a joint stock limited company. The increase in capital had been verified by Arthur Andersen • Hua Qiang Certified Public Accountants, certified public accountants registered in the PRC, and approved by State Economic and Trade Commission of the PRC and SMAIC.
- (c) 149,500,000 H Shares of RMB1 each were issued upon the Company's listing at HKD10.95 (equivalent to approximately RMB11.62) each and were fully paid up for cash, resulting in a share premium of approximately RMB1,522,212,000 after deducting the transaction costs in relation to the issuing of new H shares of approximately RMB65,478,000 of which approximately RMB2,354,000 were recorded as deferred assets as at 31st December, 2001.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

21. RESERVES

Movements in reserves of the Company were as follows:

	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Total
	RMB'000	RMB'000 (Note 22)	RMB'000 (Note 23(a))	RMB'000 (Note 23(a))	RMB'000	RMB'000
As at 1st January, 2001	—	—	10,080	5,040	111,995	127,115
Profit attributable to shareholders for the year	—	—	—	—	106,161	106,161
Appropriations (Note 23(a))	—	—	7,480	3,740	(11,220)	—
Dividends (Note 23(b))	—	—	—	—	(90,648)	(90,648)
As at 31st December, 2001	—	—	17,560	8,780	116,288	142,628
Capitalisation of retained earnings (Note 20(a))	—	—	—	—	(70,000)	(70,000)
Capitalisation of reserves (Note 20(b))	868	(225,407)	(22,243)	(11,121)	(32,097)	(290,000)
Issuance of H shares (Note 20(c))	1,522,212	—	—	—	—	1,522,212
Profit attributable to shareholders for the year	—	—	—	—	309,687	309,687
Appropriations (Note 23(a))	—	—	25,252	12,626	(37,878)	—
Dividends (Note 23(b))	—	—	—	—	(90,648)	(90,648)
As at 31st December, 2002	1,523,080	(225,407)	20,569	10,285	195,352	1,523,879
Representing:						
2002 final dividends proposed (Note 23(b))					61,818	
Others					133,534	
Retained earnings as at 31st December, 2002					195,352	

22. CAPITAL RESERVE

Capital reserve of the Group represents the difference between the nominal value of the equity of the subsidiary acquired pursuant to the Reorganisation over the nominal value of the Company's consideration in exchange therefor.

Capital reserve of the Company represents the excess of the net assets of the subsidiary acquired pursuant to the Reorganisation, over the nominal value of the Company's consideration in exchange therefor.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

23. APPROPRIATIONS

(a) Statutory reserve funds

(i) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

(ii) Statutory public welfare fund

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

During the year, 10% and 5% of the profit attributable to shareholders were appropriated to statutory surplus reserve and statutory public welfare fund, respectively, as approved in resolutions passed by the boards of directors of the respective companies now comprising the Group.

The above statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

(b) Dividends

	2002	2001
	RMB'000	RMB'000
Pre-listing dividends	90,648	90,648
Final proposed, of RMB0.284 (2001: Nil) per ordinary share	153,218	—
	243,866	90,648

(i) Pre-listing dividends

Prior to the listing of the Company's H shares, the respective shareholders of BYD Industries and BYD Li-ion passed ordinary resolutions to declare dividends amounting to RMB33,480,000 and RMB63,520,000 to the then shareholders of BYD Industries and BYD Li-ion, respectively, for the year ended 31st December, 2001.

Prior to the listing of the Company's H shares, the respective shareholders of BYD Industries and BYD Li-ion passed ordinary resolutions to declare dividends amounting to RMB33,480,000 and RMB63,520,000, to the then shareholders of BYD Industries and BYD Li-ion, respectively, for the four-month period ended 30th April, 2002.

(ii) Final dividend

At a meeting held on 14th February, 2003, the directors proposed a final dividend of RMB0.284 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December, 2003.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

24. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations:

	2002	2001
	RMB'000	RMB'000
Profit before taxation	763,373	248,970
Adjustment for:		
Minority interests	(6,352)	(6,352)
Bank deposits pledged for banking facilities	6,484	(4,366)
Depreciation of property, plant and equipment	58,501	35,081
Amortisation of intangible assets	1,495	1,200
Interest expenses	16,155	22,163
Interest income on bank deposits	(2,602)	(565)
Provision for doubtful receivables	10,622	7,868
(Reversal of provision for)/ provision for inventories obsolescence	(1,559)	12,963
Loss on disposal of property, plant and equipment	4,834	2,510
Operating profit before working capital changes	850,951	319,472
Increase in inventories	(197,505)	(65,426)
Decrease/ (increase) in deferred assets	2,354	(2,354)
Increase in prepayments and other receivables	(138,218)	(16,150)
Increase in accounts and notes receivables	(258,383)	(132,227)
Increase in due from related parties	(15,422)	(2,515)
Increase in accounts and notes payables	123,566	52,984
Increase in accruals and other payables	8,362	15,817
(Decrease)/ increase in advances from customers	(4,427)	3,910
Net cash inflow generated from operations	371,278	173,511

(b) Major non-cash transactions:

During the year ended 31st December, 2002, the companies now comprising the Group declared dividends amounting to RMB90,648,000 to their then shareholders, of which approximately RMB14,419,000 were offset against amounts due from related parties in the respective year.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

25. SEGMENTAL INFORMATION

The Group has only one business segment, which is the manufacturing of batteries and related products. The Group conducts the majority of its business activities in four geographical areas, namely the PRC, Hong Kong, Europe and U.S.A. No segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

An analysis by geographical segment, as determined by location of assets, is as follows:

	Year ended 31st December, 2002		
	Turnover	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
PRC	2,144,708	(1,257,250)	887,458
Hong Kong	—	—	—
Europe	98,236	(54,838)	43,398
U.S.A.	47,954	(24,426)	23,528
Total	2,290,898	(1,336,514)	954,384

	Year ended 31st December, 2001		
	Turnover	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
PRC	1,167,040	(805,003)	362,037
Hong Kong	10,057	(6,520)	3,537
Europe	48,330	(23,125)	25,205
U.S.A.	79,875	(40,573)	39,302
Total	1,305,302	(875,221)	430,081

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

26. COMMITMENTS

(a) Capital commitments

The Group and the Company had the following capital commitments which were not provided for in the accounts:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Authorised and contracted for				
- Acquisition of property, plant and equipment	190,547	18,552	62,850	18,552
- Acquisition of software and hardware for enterprise resources planning system	—	8,081	—	4,035
	190,547	26,633	62,850	22,587

(b) Lease commitments

As at 31st December, 2002, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within 1 year	820	1,288	576	1,288
After 1 year but within 5 years	—	712	—	712
	820	2,000	576	2,000

27. BANKING FACILITIES

As at 31st December, 2002, the Group had aggregate banking facilities as follows:

	2002 RMB'000	2001 RMB'000
Loan facilities	380,000	460,000
Letters of credit	166,600	83,830
For either loan facilities or letters of credit	350,000	—
	896,600	543,830

As at 31st December, 2002, unused facilities as at the same date amounted to approximately RMB627,109,000. The facilities were secured by guarantees given by the Group.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

28. CONTINGENT LIABILITIES

(a) The Group had the following significant contingent liabilities:

	2002	2001
	RMB'000	RMB'000
Discounted notes	—	23,015
Guarantee for bank loans of other companies	2,300	25,470
Letters of credit issued	176,628	48,738
Guarantee for issuance of letters of credit of other company (denominated in USD)	—	4,980
	178,928	102,203

(b) The Group is currently involved in, among others, a litigation proceeding in the U.S.A. in relation to alleged patent infringements. Due to the fact that such proceeding is still at an initial stage as at this report date, it is impracticable and premature for the directors of the Company to assess the impact of such proceeding on the Group and its operation. The directors of the Company believe that the Group has not committed the alleged infringements. The Group would vigorously defend against all claims made under the proceedings.

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang Chuan-fu	Director and shareholder of the Company
Mr. Xia Zuo-quan	Director and shareholder of the Company
Xin Ya Di Co., Ltd.	Company controlled by Mr. Wang Chuan-fu, director and shareholder of the Company

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related parties

During the year, the Group had the following significant transactions with related parties:

	2002	2001
	RMB'000	RMB'000
Sale of land use right to Xin Ya Di Co., Ltd.	20,000	—

The above transaction was entered into on normal commercial terms according to the advice of a firm of professional surveyors.

(c) Balances with related parties

As at 31st December, 2002, the significant balances with related parties were as follows:

Group

	2002	2001
	RMB'000	RMB'000
Due from related parties:		
- Mr. Wang Chuan-fu	981	—
- Mr. Xia Zuo-quan	22	—
	1,003	—

The above amounts mainly resulted from cash advances for normal business transactions.

All balances with directors are unsecured, interest free and do not have fixed repayment terms.

NOTES TO THE ACCOUNTS

31st December, 2002

(Amounts expressed in RMB unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (cont'd)

(c) Balances with related parties (cont'd)

Company

	2002	2001
	RMB'000	RMB'000
Due from related parties:		
- BYD Li-ion	228,349	83,259
- BYD Electronics	761	2,281
- BYD SH	114,076	—
- BYD Europe	33,366	23,610
- BYD America	13,690	2,392
- BYD HK	1,713	788
- Mr. Wang Chuan-fu, director	981	2,707
- Mr. Xia Zuo-quan, director	22	—
	392,958	115,037

All balances with related parties are unsecured, interest free and do not have fixed repayment terms.

(d) Additional information on amounts due from directors:

	Maximum balance of amount due from directors	
	2002	2001
	RMB'000	RMB'000
Mr. Wang Chuan-fu	8,527	8,060
Mr. Xia Zuo-quan	6,544	6,055

30. SUBSEQUENT EVENTS

On 22nd January, 2003, the Company entered into two acquisition agreements with Shanxi Province Investment Group (Limited) Company, a State-owned entity in the PRC, and Xian Northern Qin Chuan Machinery Industries Company Limited, a State-owned entity in the PRC, respectively, pursuant to which the Company will effectively acquire an aggregate of 77% equity interest in Xian Qin Chuan Automobile Limited Liability Company, a limited liability company established in the PRC, which is engaged in the manufacturing of automobile, for an aggregate consideration of RMB269,500,000. Details of the acquisition including the timing of payment of the aggregate consideration have been described in the Disclosable Transaction circular of the Company dated 22nd January, 2003.

Information on goodwill (or negative goodwill) arising on the aforementioned acquisition is not disclosed as it is impractical to do so as at the date of this report.